10/24/83
B5350-2

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, OCTOBER 24, 1983 VOLUME XX, NUMBER 38

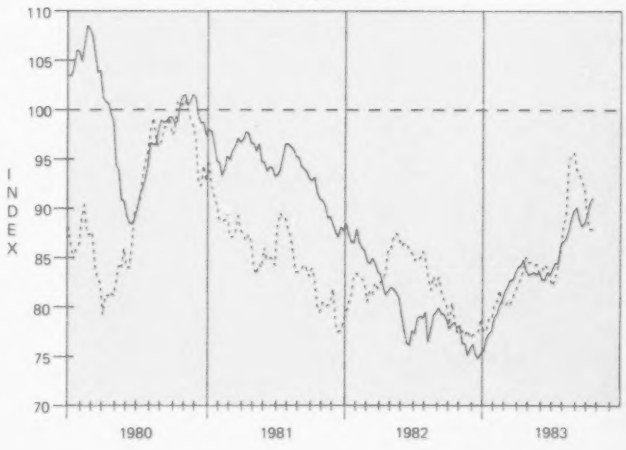
Inflation Is Kept In Check . . .

One of the favorable developments accompanying the current economic recovery is the remarkable deceleration in the rate of inflation. In September, producer prices increased a scant 0.2 percent, or at a 2.4 percent annual rate. In the 12 months ending in August, consumer prices advanced by only 2.5 percent—one of the lowest year-over-year rises since the mid-1960s—and less than a quarter of the 10.9 percent 12-month increase posted just two years ago. Meanwhile, the Commerce Department last week reported that the implicit GNP price deflator, the broadest measure of inflation, rose at a seasonally adjusted 3.4 percent annual rate in the third quarter—about the same as the 3.3 percent clip of the second quarter. By any yardstick, the progress in combating inflation has been impressive.

Weakness in energy prices during the last two years combined with extremely modest increases in food prices were two major contributors to the cooling of inflation. But a recent rise in spot commodity prices has generated fears in some quarters that inflation may flare up again. By the end of August, the Commodity Research Bureau's index of all commodity prices had risen 21½ percent from the lows of last December, as prices of both raw industrials and foodstuffs took off. But while the increase in raw industrial prices occurred because of changing pressures of supply and demand in the marketplace, reflecting the typical upward trend in prices during a recovery, the runup in prices of foodstuffs was caused mainly by the summer drought and the Administration's new farm program. However, as it became clear that the damage done by this year's reduced crops would be partially offset by plentiful corn and wheat surpluses from previous years' harvests, prices of foodstuffs began to retreat.

At the same time, pressures under industrial commodity prices eased. Prices of such individual raw materials as copper, tallow, hides and cotton declined. And while prices of raw industrials climbed seven percent in the eight weeks between July 5 and August 30, in the following seven weeks the increase amounted to just 1½ percent. As a result of these trends, the index of all commodity prices remains about 11½ percent below its peak level reached in November, 1980 (see chart).

TUESDAY SPOT PRICE INDEXES
RAW INDUSTRIALS (LINE) VS. FOODSTUFFS (DOT)
(OCT. 1980=100)



Although consumers are likely to pay higher food prices at the supermarkets in the coming months, the effects of these price increases on overall consumer prices are not expected to be significant and do not present a serious threat to the disinflationary progress of the last two years. This is because the food components of the consumer price index (CPI) account for only 20 percent of the total index. Thus, for example, if all other components of the CPI were to hold steady, a one percentage point increase in retail food prices would result in only a 0.2 percent rise in the overall CPI. In addition, higher prices of some groceries are being offset by lower beef and pork prices because farmers, unable to meet rising feed costs—another consequence of the drought—are slaughtering their herds. Sometime next year, however, the reduced supply of livestock will translate into higher meat prices.

BEST AVAILABLE COPY

Copyright 1983
Manufacturers Hanover Trust Company
270 Park Avenue, New York, N.Y. 10017

. . . By Stable Energy Prices . . .

As for raw materials, their higher prices will not push prices up significantly because other costs of production such as energy and labor remain moderate. Indeed, the absence of pressures on energy prices is a key factor in the favorable outlook for inflation. Although political instability in the Middle East could again disrupt the flow of oil imports from the OPEC nations, the U.S. not only has diversified its supply sources, but also has slowed the growth of consumption of petroleum products—thus placing itself into a considerably less vulnerable position in case of a potential oil supply interruption or price increase.

During the first eight months of 1983, for example, consumption of petroleum products declined 3.1 percent, while imports of crude oil fell 9.9 percent compared with the first eight months of 1982. In the ten years that have passed since the Arab oil embargo, the U.S. reduced its crude imports from the Persian Gulf by 20 percent. The combination of increased non-OPEC sources of oil, energy substitution and conservation efforts has reduced the dominance of OPEC in international markets and weakened significantly OPEC's ability to dictate world oil prices.

. . . And Growing Productivity

But perhaps the most important reason for expecting that near-term inflation rates will remain

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/12/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	159.375	– 2.488	+19.039
Loans to Depository Inst.	1.274	– .142	+ .909
Float	1.322	+ .447	– .969
Total Reserve Bank Credit	170.130	– 2.764	+17.564
Treasury Deposits with Federal Reserve Banks	8.628	– 3.698	+ 5.809
Currency Outside Banks	145.496	+ 1.631	+12.462
Member Bank Reserves:			
Required	36.569	– .960	– 2.318
Excess (Deficiency)	.752	+ .095	+ .290
Total Reserves Held	37.321	– .865	– 2.028
Net Free Reserves	.262	+ .321	– .022
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.626	– .192	+ 8.687

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	519.6	+ 4.7‡	+ 11.4‡
M2 (September '83)	2,145.7	+ 5.9	+ 11.9
M3 (September '83)	2,544.0	+ 7.3	+ 9.0
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 10/21/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.50%	8.70%	8.85%
* Federal Agencies	8.80	9.10	9.75
* Project Notes–Taxfree (46% Taxable Equivalent)	9.44	9.81	10.37
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.13	9.25	9.80

‡Finance Company Paper–Prime

5- 14 days	9.00%
15- 29 days	9.00
30- 59 days	9.00
60- 89 days	9.00
90-179 days	8.88
180-239 days	8.75
240-270 days	8.75

‡* Bankers' Acceptances

Nov.	9.00%
Dec.	9.00
Jan.	9.00
Feb.	9.00
Mar.	9.00
Apr.	8.90

‡Industrial Paper–Prime

30- 89 days	9.00%
90-120 days	9.00

†Federal Funds Effective Rate 9.38%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83n	$ 3,363	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83n	$ 1,554	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83n	7.9	9.7	– 1.0
Change in Consumer Prices (new series)*	Aug '83	4.8%	4.8%	3.6%
Change in Producer Prices*	Sep '83	1.2%	4.8%	1.2%
Civilian Employment (Thousands of Persons)†	Sep '83	101,945	101,563	99,543
Unemployment as % of Civilian Labor Force†	Sep '83	9.3%	9.5%	10.2%
Personal Income*	Sep '83n	$ 2,781	$ 2,756r	$ 2,597
Leading Indicators Composite Index (1967=100)†	Aug '83	158.1	158.3	136.1
Industrial Production Index (1967=100) †	Sep '83	153.7	151.4	137.3
Net Change in Consumer Installment Credit †	Aug '83	$ 3.39	$ 4.84	$ 0.26
U.S. Merchandise Trade Balance †	Aug '83	–$ 7.19	–$ 6.36	–$ 6.53
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Sep '83n	1,652	1,909r	1,134
New Construction Expenditures*	Aug '83	$ 276.1	$ 269.5	$ 231.6
Total Business Inventories †	Aug '83	$ 512.1	$ 505.8	$ 521.3
Total Business Sales †	Aug '83	$ 373.6	$ 372.4	$ 343.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

modest is the dramatic slowdown in wage increases and the typical post-recession pattern of productivity. Productivity usually increases faster in the early stages of recovery, slowing any rise in unit labor costs. The prolonged 1981-82 recession, with its record 12 million laid-off workers and the highest business bankruptcy rate since the Great Depression—not to mention strong pressures from foreign competition—has reduced labor's appetite for big wage increases.

As a result, wage hikes for workers covered by major collective bargaining agreements settled in first-half 1983 were the lowest in 15 years. Pay increases averaged 0.9 percent for the first year of the contract and 2.7 percent a year for its duration. This compares with an average wage adjustment of 8.4 percent in the first contract year and 6.7 percent a year over the life of the contract that the same parties negotiated during their previous bargaining. When this moderation is combined with the recent jump in nonfarm productivity, it produces a decline in unit labor costs—the first since 1975.

Finally, the strong dollar is also helping to keep inflation subdued. It has encouraged more lower-priced imports and has increased the pressures from foreign competition on domestic producers to become more cost-efficient. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/5/83)	90,119	– 3,266	–57,957
New York City (10/5/83)	19,479	– 1,575	–17,643
Commercial Paper (10/5/83)	176,912	+ 74	+ 3,282*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/5/83)	214,902	+ 1,552	– 5,774
New York City (10/5/83)	57,818	+ 887	– 4,867

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/5/83)	515,859	+ 5,277	+10,177
New York City (10/5/83)	118,332	+ 3,011	– 1,736

Financial Markets

	Friday 10/21/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.80%	– .25	+ .90
180-Day Bills†	9.25	– .20	+ .65
Longest Bills†	9.65	– .18	+ .45
Recent Issues:			
10½s 10/31/85 (When Issued)	10.50	NA	
11⅛s 9/30/87	10.97	– .10	
11⅞s 8/15/93	11.40	– .15	
12s 8/15/13	11.47	– .13	
Municipals:			
Bond Buyer–20 Bond Index* (10/20/83)	9.68%	+ .01	– .01
Blue List Total ($ Million)	$1,436	–0–	+ $ 16
30-Day Visible Supply ($ Million)	$2,824	+ $610	– $1,514
Total	$4,260	+ $610	– $1,498
Corporates:			
Moody's Aa Composite (10/20/83)	12.46%	– .10	– .33
30-Day Visible Supply ($ Million)	$1,100	– $642	– $160
Stocks:			
Dow-Jones Averages:			
Industrials	1,248.88	– 14.64	+ 217.42
Transportation	590.30	+ 9.75	+ 150.93
Utilities	138.82	+ 1.44	+ 17.28
65 Stocks	502.00	– .06	+ 97.82
Standard and Poor's 500 Stocks	165.95	– 3.91	+ 27.13
N.Y.S.E. Composite Index	95.75	– 2.25	+ 16.07
N.Y.S.E. Avg. Daily Vol. for Week (000's)	90,998	+18,648	– 10,542

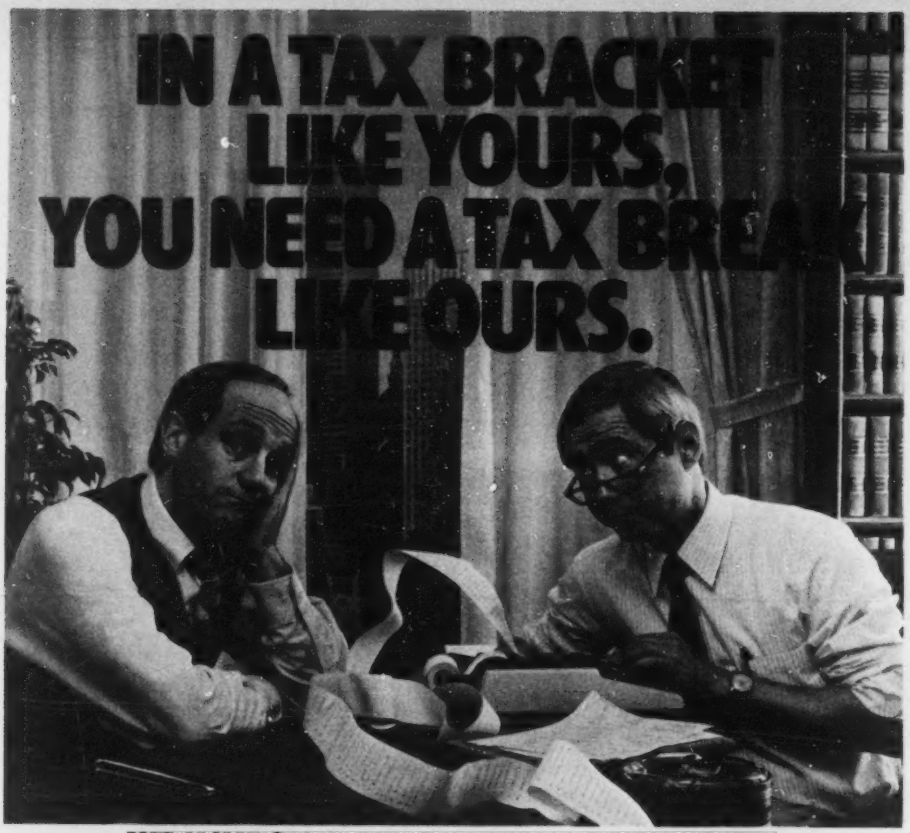
* 46% Taxable equivalent 17.93%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/21/83	Week Ago
Overnight	9.38%	9.63%
1 month	9.44	9.63
3 month	9.50	9.81
6 month	9.63	9.88
1 year	9.94	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.45%	11.50%
Long Term (7 to 15 yrs.)	11.55	11.60

FOREIGN EXCHANGE SPOT RATES New York Opening (10/21/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01898	52.70
Canada	.8124	1.2309
Denmark	.1068	9.3630
France	.1267	7.8905
Germany	.3874	2.5815
Italy	.0006357	1573.00
Japan	.004311	231.97
Mexico	.006349	157.50
Netherlands	.3444	2.9035
Switzerland	.4764	2.0992
U.K.	1.5022	.6657



WE HAVE 3 WAYS TO SHELTER YOUR INCOME.

IRA: A high-yield investment that reduces your tax bite.
Simplified Employee Pension: A super IRA for business owners and their employees.
Rollover IRA: Control your retirement income and avoid unnecessary taxation.

For more information, write:

Manufacturers Hanover Trust
Retirement Services Administration
100 Duffy Avenue
Hicksville, N.Y. 11801

or call:
1-800-645-6400.

MANUFACTURERS HANOVER TRUST

Our facts make your money worth more.

Substantial interest and tax penalties for withdrawal before age 59½. $25 early closeout fee. Withdrawals must begin at age 70. Member FDIC. Further information about our savings plans is available at any branch.

The Manufacturers Hanover
Financial Digest
Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

00208000006990 C 039 CONGR0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE, INC.
4520 EAST-WEST HWY., SUITE 800
WASHINGTON, DC 20014